

Hughes Hubbard & Reed

HHR Wins Groundbreaking Jury Verdict in Crypto Fraud Trial

News & Events

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November 3, 2021 – Hughes Hubbard won a groundbreaking jury verdict for a former Wall Street executive defending against a class action over an alleged multimillion-dollar cryptocurrency Ponzi scheme.

On Nov. 1, following an eight-day trial, a federal jury in Hartford, Conn., unanimously found in favor of Stuart Fraser, the sole remaining defendant in the case. He was an investor in two now-defunct cryptocurrency mining companies.

"It's the first case that we know of where a jury addressed whether cryptocurrency products were securities," Dan Weiner, who led the HHR team representing Fraser, [told Law360](#). Brenner Saltzman & Wallman was the firm's co-counsel on the case.

Fraser, former vice chairman of Cantor Fitzgerald, faced "control person" liability claims for his purported role in GAW Miners and ZenMiner, two cryptocurrency mining companies founded by Joshua Garza. Garza pleaded guilty in July 2017 to wire fraud in a related criminal action. He was ordered to pay \$9.1 million as restitution to his companies' victims and was sentenced to 21 months in prison.

Plaintiffs filed a civil suit in 2016, accusing Garza and Fraser of running a cryptocurrency Ponzi scheme that resulted in investors losing more than \$10 million. According to the suit, Garza and Fraser each held a 41 percent interest in GAW Miners. Garza described Fraser as an active partner, and plaintiffs claimed that emails showed Fraser directing and advising Garza about GAW Miners' operations.

HHR argued at trial that Fraser was Garza's biggest victim and that he was not liable to plaintiffs.

GAW Miners initially sold physical cryptocurrency mining equipment to customers but, along with ZenMiner, began offering remote management software that purportedly allowed plaintiffs to control their mining hardware online.

The companies sold "Hashlets," which gave purchasers a portion of the computing power the companies purportedly owned without receiving the physical hardware, according to the suit.

GAW Miners and ZenMiner also sold so-called "Hashpoints," which the purchasers described as promissory notes that could be converted into the companies' virtual currency, Paycoin. "Hashstakers" were virtual wallets for storing Paycoin.

The plaintiffs alleged all four of the products — Hashlets, Hashpoints, Paycoin and HashStakers — were unregistered securities, and that Fraser was liable for the sales because his role at the companies was comparable to that of a partner or director.

But the jury disagreed, finding none of the products were securities, not even Hashlets, which the SEC described as a security in its case against Garza.

HHR argued convincingly that Hashlets were not a passive investment and that customers actively controlled their investment.

The jury also found Fraser didn't aid in any common law fraud that may have been committed by GAW Miners. Fraser had argued he too had been a victim of Garza's scheme, losing roughly \$12 million, and that he didn't have decision-making power over the companies' operations.

"It's pretty clear there was a fraud — the main guy who did it went to jail for 21 months," Weiner said to Law360, referring to Garza. "But what kind of criminal mastermind has a scheme where he's behind the scenes controlling everything and he loses \$12 million?"

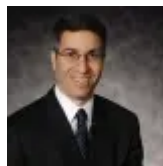
The jury's verdict was also covered by [Law360](#), [The American Lawyer](#), [Reuters](#), the [Hartford Courant](#) and other news sources. Susman Godfrey and Izard Kindall & Raabe represented the class.

In addition to Weiner, the HHR team also included Marc Weinstein, Amina Hassan, Hannah Miller, Grace Ha, Siobhan D'Angelo and paralegal Nicole Garton.

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